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UNCLAS ANKARA 008454

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SENSITIVE

STATE FOR EUR/SE, EB/IFD/OMA AND E  
TREASURY FOR OASIA - MILLS AND GUNARATNE  
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SUBJECT: TURKISH MARKET RALLIES HALT, AWAIT GOT ACTION; NEW  
TREASURY MINISTER'S FIRST STATEMENT

REF: ANKARA 8381

Sensitive but Unclassified. Not for internet distribution.

Markets Await GOT Next Steps  
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11. (U) In morning trading November 20, yields on the benchmark lira Treasury bill rose to the 52 percent compounded level, having dropped earlier in the week of 49 percent. The lira depreciated slightly to TL 1,590,000 from yesterday's low of TL 1,580,000. Two days of profit taking in the Istanbul Stock Exchange has brought the index down to 13,276, from Monday's height of over 14,000.

12. (SBU) Comment: The market rallies have halted for three reasons. First, T-bill rates rose largely for a technical reason - an inverted yield curve. At 49 percent in compounded terms, the eight month maturity T-bills were offering a lower rate (about 40 percent in simple terms) than overnight money market investments (a simple rate of 44 percent.) Unless one was willing to bet that the Central Bank would soon cut its overnight borrowing rate, the 49 percent compounded level was not sustainable. Second, some investors, including a large U.S. investor, took advantage of the greater liquidity in the stock market to sell. Third, many investors and analysts now say they want to see actions by the new GOT before buying more. Credit Suisse's local trader, reflecting a widely held sentiment, told us, "we need to be assured that this is not another temporary volatile swing, that the new GOT will take steps to keep it going."

Babacan's First Statement as  
State Minister in Charge of Treasury  
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13. (U) New State Minister in charge of the Treasury Ali Babacan gave brief press remarks on November 19 evening, following a hand-over with outgoing Minister Turker. Babacan said the new GOT program would aim to decrease inflation, and strengthen debt dynamics in a permanent way by decreasing the public sector debt to GNP ratio (Note: Babacan appears to be taking the advice of Treasury U/S Oztrak, who stressed these points in a meeting with us November 19, septel.)

14. (SBU) On IMF relations, Babacan said "there is a great possibility the IMF will visit Turkey within several weeks." (Comment: IMF resrep told us IMF Europe Director Deppler and Turkey Mission Chief Kahkonen are now planning a trip to meet with new GOT ministers on or about December 1-3, before the end Ramadan holiday that starts mid-day December 4.)

15. (U) Asked about the 2003 budget, Babacan said: "Everything will be fully announced by the end of December, after holding talks with the IMF." Babacan didn't directly address the primary budget surplus issue, but he did add that a major part of the GOT program would include "social measures" to alleviate unemployment, measures for the real sector and agricultural support projects. "we will do what we promised," Babacan concluded.

16. (SBU) Comment: The extent of Babacan's portfolio has not yet been spelled out - in addition to the Treasury Undersecretariat, he may also supervise privatization, and have oversight responsibility for the banking and capital market boards (Dervis and Turker also had the later two

agencies.) Reftel has Babacan's bio.  
PEARSON